'Backed by field research and case studies, Hinterhuber and Liozu take complex pricing concerns, make them readily understandable, and propose solutions that managers can profitably implement...A must read for today's results-driven sales professional!'

James A. Narus, Professor of Business Marketing, Wake Forest University, USA

ROUTLEDGE

PRICING AND THE SALES FORCE

Edited by Andreas Hinterhuber and Stephan Liozu

PRICING AND THE SALES FORCE

Pricing and the Sales Force is the first book to link pricing strategy and the sales force together. Pricing strategy is now well established as an important means of driving profits for many organizations. Countless companies are now mastering price-setting. But what about "price-getting" – converting those list prices into the realized sales, and as a result, greater profitability? This is the domain of the sales force.

A selection of the world's leading specialists explore different aspects of sales force and pricing strategy integration:

- introduction: overview on the state of the art;
- building key capabilities: best practices for building sales force capabilities in pricing and value quantification;
- engaging the sale force: driving organizational change processes with the sales force;
- designing effective selling processes: designing and implementing processes that enable superior performance, and
- aligning sales force incentives and building the infrastructure: insights into how to align sales force incentive schemes; tools and instruments to enable the sales force to perform.

The third in Hinterhuber and Liozu's successful pricing series, this book is essential reading for pricing strategy and sales scholars and practitioners.

Andreas Hinterhuber is a Partner of Hinterhuber & Partners (www.hinterhuber.com). He is also a Visiting Professor at USI Lugano, Switzerland and was acting chair and head of the Department of International Management at Katholische Universität Eichstätt-Ingolstadt, Germany.

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INTRODUCTION

Andreas Hinterhuber and Stephan M. Liozu

On moments of truth

Pricing decisions are usually the result of a chain of prior decisions, typically either horizontal chains, i.e. different departments within an organization (sales, marketing, finance, controlling, and general management), or vertical chains, i.e. different hierarchical levels. Selling is the final element in this chain. Rephrasing Raymond Corey and his comment about pricing as the missing "P" of marketing, we propose: selling is the moment of truth—all of pricing comes to focus in selling. Nowhere else is pricing excellence more visible or more absent than in selling.

Our pricing capability grid separates "price setting" from "price getting" (Hinterhuber and Liozu, 2012b). Selling is all about price getting (see Figure 1.1).

Price getting involve price negotiation, value communication, monitoring of net pocket prices, setting objectives for each element between list and pocket prices, restructuring of on-invoice and off-invoice discounts to drive desired customer behavior, growing and managing customers based on net pocket price profitability, rewarding the sales force for profits, and using tools to optimize prize realization (Hinterhuber and Liozu, 2012b).

Managing pricing within the context of the sales force implies: developing capabilities in value-based selling (Töytäri, Rajala, and Alejandro, 2015), co-creating value with customers (Payne, Storbacka, and Frow, 2008), facilitating a culture conducive to long-term profitable relationships with customers, developing sales force confidence (Liozu, 2015), influencing customer perceptions of value and price without lowering the price (Hinterhuber, 2015), and building robust sales processes.

We are not able to cover all areas in this broad domain: Even an edited volume needs a focus which reflects also the quality of submissions received. We have organized this book around five parts: (1) the introduction, (2) a section on sales force

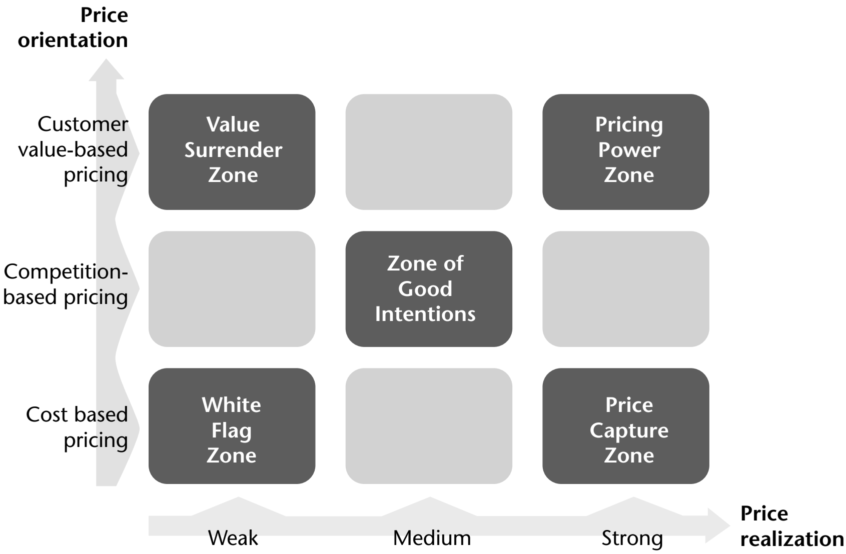

FIGURE 1.1 The pricing capability grid (Hinterhuber and Liozu, 2012b)

capabilities (3) a section on engaging the sales force, (4) a section on sales processes, and (5) a section on sales force compensation and the supporting infrastructure.

The structure of the book

Part I—Introduction—contains the present introductory chapter by *Andreas Hinterhuber* and *Stephan Liozu*.

Part II—Building key capabilities—contains several chapters dealing with arguably the single most critical capability in B2B selling: value quantification. In "Value quantification: the next challenge for B2B selling" *Andreas Hinterhuber* presents the result of an empirical survey on value quantification capabilities in European and US-based B2B companies. This chapter presents a process consisting of five key steps that can guide managers in industrial companies in value quantification. The process of value quantification is topic also of the next chapter: In "Interview with an Expert: Mr Todd Snelgrove, Chief Value Officer, SKF" *Andreas Hinterhuber* and *Todd Snelgrove* discuss the organizational changes SKF has implemented to achieve what arguably can be considered best-in-class capabilities in value quantification. The interview explores sales force capabilities required for value quantification, it illustrates how an industrial sales force can change purchasing criteria of industrial buyers and it presents suggestions on how to deal with purchasing situations where the selection criteria are primarily centered on price, such as LPTA (lowest price technically acceptable) procurement. The chapter "Shedding the commodity mindset" by *John E. Forsyth*, *Alok Gupta*, *Sudeep Haldar*, and *Michael V. Marn* similarly explores the question of how an industrial sales force can survive, let alone thrive, in an environment where products are treated as commodities and where price is apparently the only important purchase factor. The authors convincingly make the case for sound research on customer needs, customer segmentation, and product differentiation even in highly competitive markets. As a result, the authors suggest, companies can profitably develop different value propositions that meet the requirements of different market segments identified via needs-based market segmentation. Commodities, the authors state, do not exist. This chapter is a required reading for all those managers in B2B complaining that products cannot be differentiated and that competition is based solely on price.

Part III—Engaging the sales force—presents a series of chapters on the cultural and behavioral changes that need to take place in the sales force in order to drive profitability via pricing. In "Change management and pricing: getting the sales force on board" *Stephan M. Liozu* makes a strong case for treating a change in pricing strategy like a true organizational change management process requiring direction from the top, capabilities from within, peer group support from across the organization and follow-up from supervisors. This process of change management is explored in depth in the following chapter. In "Interview with an Expert: Mr Marco Meyrat, Member of the Executive Board of Hilti Corporation" *Stephan M. Liozu* and *Marco Meyrat* discuss the technical, political and cultural dynamics of the organizational change management related to pricing at Hilti. Managers of companies with currently weak capabilities in value-based pricing and value-based selling will benefit. In "Salespeople's learning by doing and pricing strategy" by *Qiang (Steven) Lu*, *Ranjit Voola*, and *Shahriar Akter* examine how learning by doing by sales managers facilitates the realization of profit and sales objectives. Using a Bayesian learning model the authors find that adaptive salespeople are more likely to outperform. The authors also suggest that sales managers learn more from failure than from success. In "How to get the sales team to embrace pricing improvement" *David Dvorin* presents a series of elements that need to be considered in order to obtain support for value-based pricing with the sales force. In "Having the value conversation" *Ronald J. Baker* suggests that the ability of the sales force to ask the right questions is a key requirement for value-based selling and value-based pricing. The author presents questions sales managers can use to uncover customer latent needs in order to change customer purchase criteria from price to value.

Part IV—Designing effective sales processes—presents a series of chapters all examining how companies can embed value-based selling and pricing within the sales force via robust processes that are, to a degree, independent of the whim of a single individual. In "Stop reacting to buyers' price expectations – manage them" *Thomas T. Nagle* and *Joseph Zale* highlight the critical role that pricing policies play: Pricing policies are required to manage customer expectations and to increase profits. Pricing, the authors argue, has to be managed by policy, not by exception: Central functions, such as the pricing function, define criteria, i.e. the requirements that customers or orders must meet in order to qualify for a lower price; sales managers implement these policies, but they cannot not have primary responsibility in defining these policies in the first place. The authors recommend: The process for developing good policies involves treating each request for a price exception as a request to create or to change a policy. In "Value-based selling: toward new practices of creating and sharing value" *Pekka Töytäri* and *Risto Rajala* present insights from a case study on value-based selling in industrial markets. Focus of their study are those processes and capabilities that are required to transform customer relationships from transactional to value-added exchange relationships that permit value-based selling. The authors suggest that a focus on value-based selling is especially effective during early stages of the customer's buying cycle. If there is no shared understanding of value, the authors argue, value-based selling is essentially pointless. A key finding is thus that value-based selling requires processes and capabilities that change customer purchase criteria, that develop a joint understanding of the value creation potential and that achieve a shared vision of the way to realize these benefits. Sales processes are at the heart also of the subsequent chapter: In "Designing effective sales processes to drive profits via pricing" *Tapio Nissilä* presents a sales effectiveness framework that can enable companies to drive profits via value-based pricing strategies. Key elements of this framework are elements related to selling strategies (e.g. market segmentation, customer value proposition, pricing), elements related to sales management (e.g. sales method, account management, sales planning, performance management), elements related to sales execution (e.g. identification of value creation opportunities, opportunity qualification, opportunity development, proposal development, contract negotiation, delivery) and, finally, elements related to sales support (e.g. sales organization, compensation, capabilities, IT tools). This framework is comprehensive and will be useful to managers aiming to improve the effectiveness of existing processes of value-based selling. In "Breadth of a salesman" *John R. DeVincentis* and *Neil Rackham* remind us that the role of the sales force and, consequently, the role of selling processes depend on customer needs. Depending on customer needs, the sales force has to be structured either as transactional, consultative or enterprise. Many companies, the authors warn, operate with a sales force operating in no man's land: too expensive for transactional selling, but incapable of creating the value of consultative, let alone enterprise, selling. The authors highlight how the sales force can and should create value in these three selling approaches. Whether companies catering to all three customer segments need three separate sales forces is a question the authors do not answer conclusively. In "How to optimize collaboration between the sales organization and pricing management" *Harry Macdivitt* presents a series of steps to facilitate the collaboration between the pricing function and the sales force, two organizational units that are notoriously at cross purposes. The author suggests that communication and collaboration are important.

Part V—Aligning sales force incentives and building the infrastructure—examines the supporting elements that are required in the context of the sales force and pricing. One of these elements is sales force compensation. In "Pricing delegation and sales force compensation" *Evandro Pollono* provides a framework that helps to decide between centralization and decentralization of pricing authority and between bonus and commission payments. In addition, the author suggests, high performing and low performing sales representatives need to be compensated differently: top performers, the author argues, should not have performance caps; laggards, by contrast, benefit from social pressure and should be rewarded by a quarterly payout. In "Delegating pricing authority to the sales force: the need for a turnaround in research and practice" *Carmen Balan* presents a comprehensive summary of the current literature on price delegation. Of particular interest is a summary of conditions that favor the delegation or centralization of pricing authority: this framework allows managers to amplify or restrict pricing authority in function of, e.g. information asymmetry, prospecting strategy, agency costs, competitive intensity, sales manager risk aversion and other factors. In this context, measuring the performance of the sales force is important: In "Using mix measurement to drive profitable sales growth" *Dev Tandon* suggests to use mix analysis to decompose annual variations in gross margins realized by the individual sales representative. This analysis, the author suggests, can help to understand the effect that changes in price, raw material costs, product portfolio composition, and cost reductions have on gross margins. In "The fast-changing intersection of price and value: a smarter way to think about customer perceptions" *Jeff Robinson* suggests that sales managers focus on a limited number of capabilities in order to withstand customer price pressure. Value communication is one of these critical capabilities.

This book in context

This book is the third volume in a series of edited volumes on pricing. Our intent is to select topics in the area of pricing that are relevant to practicing managers, but are under-researched: *Innovation in Pricing* (Hinterhuber and Liozu, 2012a) was driven by the observation that innovation in most companies is interpreted narrowly and that this narrow interpretation of innovation potentially suppresses an important source of competitive advantage: for most companies innovation is product or business model innovation. In this book we argue that innovation in pricing may be a company's most powerful, yet least exploited, source of competitive advantage. The *ROI of Pricing* (Liozu and Hinterhuber, 2014) was driven by the observation that the pricing function must, on the one side, contribute to short- and long-term results, and must also document its impact on the bottom line. This book attempts to define the concept of pricing ROI highlighting how the pricing function can increase performance and substantiate its own contribution. The present volume *Pricing and the Sales Force* (Hinterhuber and Liozu, 2015a) is driven by a curiosity to understand the final element in the chain of decisions that lead to observed market prices.

All three edited volumes are supported by empirical research leading to subsequent journal publications (Hinterhuber and Liozu, 2014, 2015b; Liozu, 2015). Pricing is a fascinating, dynamic research field – what next? Currently on our research agenda is the examination of behavioral and psychological aspects of pricing decisions (Hinterhuber, 2015; Liozu, 2015). In the future, as guest editors of a special issue in the *Journal of Business Research*, we will examine the micro-foundations of pricing, i.e. the relationship between psychological traits of pricing decision-makers and outcomes at the organizational level.

Selling as a moment of truth

In the context of pricing, selling is the moment of truth. The investments in building capabilities, in the organizational infrastructure, in product development, in marketing all account for nothing unless the sales force can deliver. We are confident that the present volume prepares sales managers for this brief and important moment.

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2

VALUE QUANTIFICATION

The next challenge for B2B selling

Andreas Hinterhuber

Introduction

The requirements for a high-performing sales function are changing. In the past, communicating product benefits and features was a key element of sales activities. This is no longer enough: today, the sales function is increasingly asked to document and quantify value to customers. Consider the results of a survey of 100 IT buyers at Fortune 1000 firms (Ernst & Young, 2002): 81 percent expect vendors to quantify the financial value proposition of their solutions (see Figure 2.1).

Similarly, a subsequent survey asks 600 IT buyers about major shortcomings in their suppliers' sales and marketing organizations (McMurchy, 2008): IT buyers see an inability to quantify the value proposition and an inability to clarify its business impact as important supplier weaknesses (see Figure 2.2).

These survey results suggest that the ability to quantify and document the financial impact of the value proposition is critical for sales executives. How well equipped are today's sales managers in this respect? Extant research suggests that B2B purchasers rate the ability of sales managers to quantify the value proposition as average at best (Ernst & Young, 2002). The conclusion: B2B sales managers need guidance on quantifying the value proposition.

About the research

Over the last five years, my colleagues and I analysed the value propositions of 125 B2B companies: these companies vary in size and include Fortune 500 companies as well as many small and medium-sized companies. We complement this research with interviews at dozens of large and medium-sized companies across a wide range of industries, including automotive, IT services, chemicals, B2B services, pharmaceuticals, forestry, and machinery. In these companies our interlocutors are sales directors,

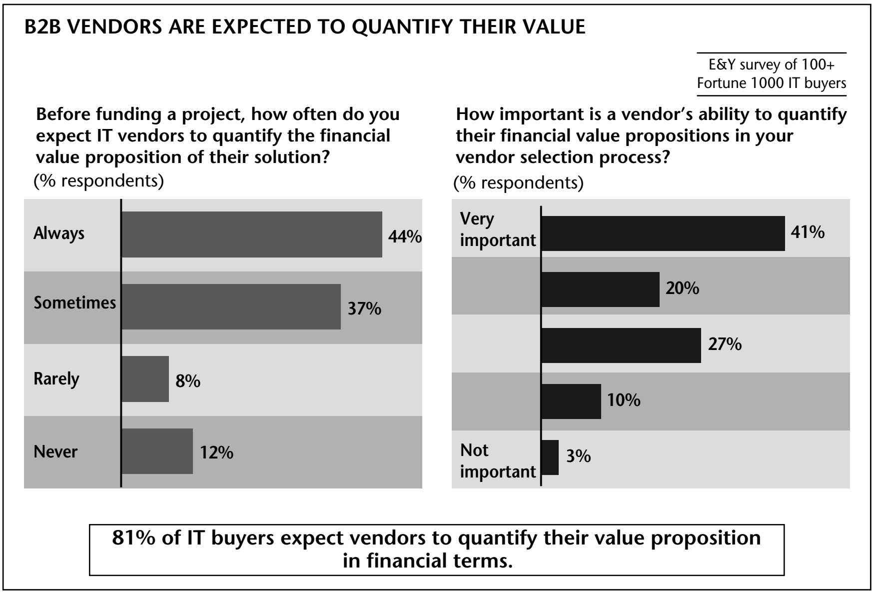


FIGURE 2.1 Value quantification: a critical requirement in B2B sales

Source: Ernst & Young survey of 100+ Fortune 1000 IT buyers; Fortune 1000 IT buyer Survey, Ernst & Young, 2002

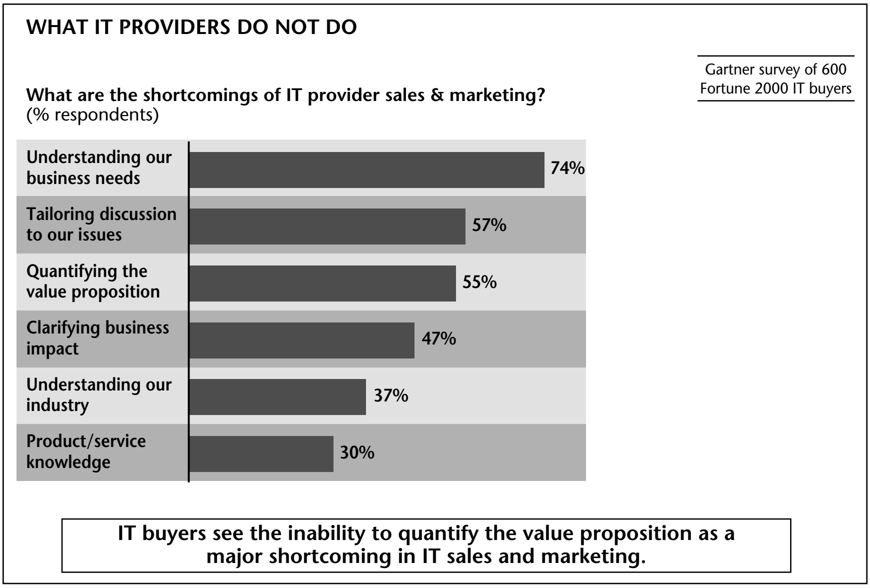


FIGURE 2.2 Value quantification: a major shortcoming of B2B sellers

Source: Gartner survey of 600 IT decision makers of Fortune 2000 companies; Neil McMurchy, Tough Times in IT, Gartner 2009 presentation

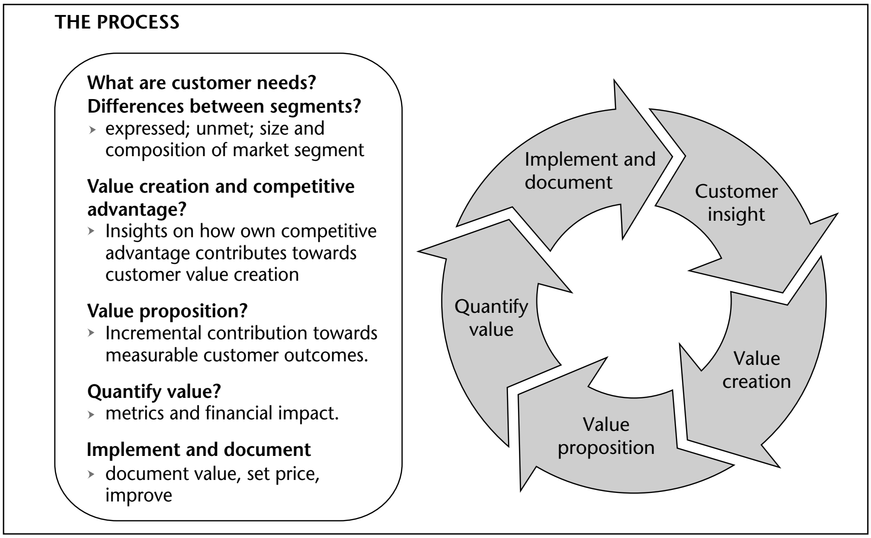


FIGURE 2.3 The process of value quantification

pricing managers, senior executives, and first-level sales managers. Our aim is, first, to collect global best practices in quantified value propositions and, second, to gain insight into the processes that guide the effective development and implementation of quantified value propositions. As a result of this research, I present below a framework for the effective development of quantified value propositions. I also present selected case studies that—based on this research—are current global best practices.

The process

Value quantification requires a process. Based on the research, within high-performing sales organizations this process includes the following steps (see Figure 2.3).

To be clear: in some organizations, the process leading to a quantified value proposition is more complex than the steps outlined below, for reasons related also to factors specific to these organizations. In other companies the actual process is much simpler than outlined: well-developed sales force capabilities ensure that the quantification of the value proposition is a routine component in all major sales pitches, done without explicitly performing all steps outlined in every sales call. Nevertheless, we find that all high-performing sales organizations perform the five steps outlined under a variety of organizational configurations.

Customer insight

The first step in this framework is customer insight. Few companies have developed systematic capabilities in this respect. According to our research, companies that master the development of quantified value propositions strive, first and foremost, to achieve leadership in customer insight. A fundamental component of achieving leadership in customer insight is developing the ability to listen to customers. Jeff Immelt, CEO of General Electric, says, "Listening is the single most undervalued and under-developed business skill" (Clegg, 2014). Carol Meyrowitz, CEO of TJX, states, "In all our training we emphasize the importance of listening" (Meyrowitz, 2014, p.47)—even for apparently inward-oriented functions such as corporate purchasing.

Listening is a key requirement that leads to performance improvements at the level of individual sales managers (Drollinger and Comer, 2013), but current research as well as executives of innovative companies concur that listening to customers does not and cannot imply following customers. The CEOs of Ford, Sony, Apple, and other companies all warn explicitly against taking customer input at face value. Steven Jobs, during his tenure as CEO of NeXT, says, "It sounds logical to ask customers what they want and then give it to them. … You can't just ask customers what they want and then try to give that to them. By the time you get it built, they'll want something new" (Gendron and Burlingham, 1989).

Key to generating customer insight is an ability to interpret customers' unmet needs. Two research approaches are noteworthy: ethnographic research and outcome-driven innovation. Ethnographic research is today the gold standard enabling researchers to obtain insight into customers' thought worlds in order to uncover existing, but currently unmet, needs (Cayla, Beers, and Arnould, 2014). Ethnographic research is a method borrowed from cultural anthropology that relies on systematic data collection and the systematic recording of human action in natural settings (Arnould and Wallendorf, 1994). Participant observation occurs via long-term immersion producing "thick"—richly textured—descriptions (Arnould and Wallendorf, 1994, p.499). The objective is a credible, not necessarily exhaustive, interpretation of activities aimed at explaining cultural variation. The main data sources are observations in context and verbal reports by participants that frequently and purposefully contain overgeneralizations and idiosyncratic accounts, which researchers interpret. This research method enables researchers to experience the specific, naturally occurring behaviors and conversations of customers in their natural environments. As a result, insight into unsatisfied needs may emerge.

Outcome-driven innovation relies on a combination of qualitative and quantitative research to uncover latent customer needs in order to develop ideas for breakthrough innovations (Hinterhuber, 2013): researchers first interview customers to discover tasks, or jobs, customers wish to accomplish; each task is then broken down into a series of desired outcomes, that is, criteria that customers use to evaluate different solutions (Ulwick, 2002). In a second stage, researchers use quantitative research with much larger samples to prioritize these outcomes along the two dimensions of satisfaction and importance. Those outcomes that a large percentage of customers rates as both high in importance and low in satisfaction are customers' true unmet needs. These outcomes can suggest ideas for breakthrough innovations (Hinterhuber, 2013).

Create value

The rule is simple: if you are not perceived as being different, then customers will benchmark you on price. The second step in the process of value quantification is thus differentiation along categories that matter to customers. To be clear, differentiation from competitors does not per se add value. It might lead to a sustained investment in product features that add no value for customers. Product differentiation strategies thus have to be preceded by an understanding of the real sources of value for customers (Hinterhuber, 2004). Customer insight—step one in our process—has to guide differentiation.

The objective of differentiation is to increase customer willingness to pay—customer value—the maximum amount customers are willing to pay. Customer value is a multifaceted concept; differentiation can thus occur along a number of dimensions. Most important, differentiation is possible also for apparent commodities. Consider the following project, recently completed (Hinterhuber and Pollono, 2014).

Executives at a global basic chemical company assume that they are operating in a commodity industry and believe that—in order to achieve meaningful sales—prices for the chemical product in question need to be lowered to the price levels of a low-cost product from China that recently entered the market (indexed at 100 in Figure 2.4). Workshops with executives and focus groups with core customers and distributors allow us to uncover a number of differentiating factors between the low-cost competitor and the company's own offering. Although in no single area do the two products differ dramatically, we find a number of areas where there are small, albeit meaningful, differences between them. Through internal expert

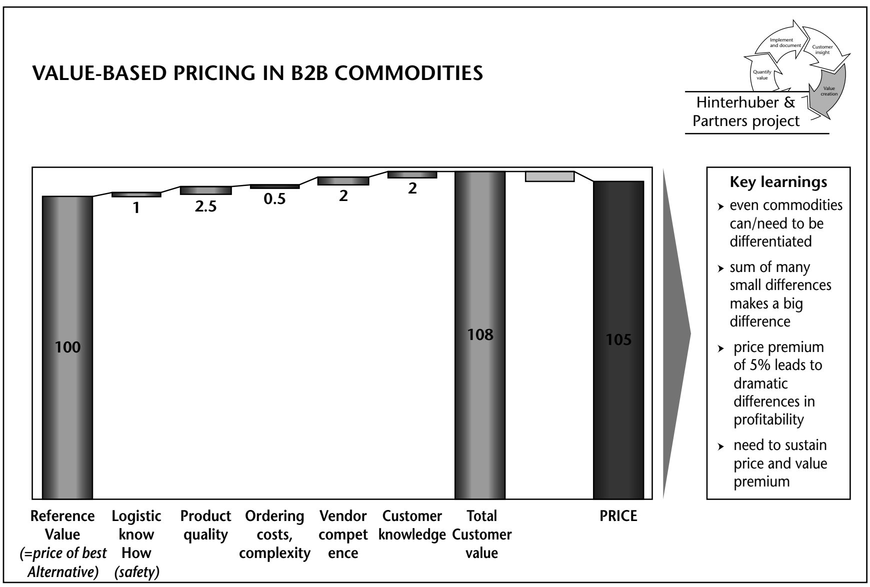


FIGURE 2.4 Value-based pricing and value creation for B2B commodities

estimates and field value-in-use assessments, we quantify customer value for these differentiating features as follows.

We find that small differences in logistical know-how, in product quality, in ordering costs and complexity, in vendor competence, and in customer knowledge add up to a positive differentiation value of 8 percent, thus allowing the company to set prices up to 8 percent above the customer's best alternative. The highest possible price is, of course, not the best price: it leaves no incentive for the customer to purchase. After applying a series of price optimizations, competitive simulations, and estimates of customer reactions, we recommend a final selling price of 105. This represents a price premium of 5 percent over the customer's best available alternative; but this price is, nevertheless, attractive for customers, since their quantified benefits are higher than the price they are expected to pay.

As main learnings of this short case study, we highlight the following points: (a) even apparent commodities can and need to be differentiated, (b) the sum of many small differences in product characteristics can add up to a significant difference in customer value, (c) small price premiums over competitive products (e.g. 5 percent) translate to significant profitability differences between companies, and (d) the price and value premium between two competitive offerings needs to be sustained over time via continuous improvement.

Develop the value proposition

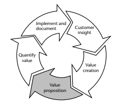
The value proposition (Lanning and Michaels, 1988) or, alternatively, the value word equation (Anderson, Narus, and Van Rossum, 2006), is an instrument designed to translate customer value into quantified, monetary benefits. Anderson *et al.* (2006, p.96) note that "a value word equation expresses … how to assess the differences in functionality or performance between a supplier's offering and the next best alternative and how to convert those differences into dollars." Numerous studies suggest that very few sellers can quantify the value proposition for their customers (Anderson, Kumar, and Narus, 2007; Hinterhuber, 2008). The capability to quantify value is, however, essential. Todd Snelgrove, Chief Value Officer of SKF, states: "Best in class companies have taken the time, effort, and focus to quantify the value of their products and services. If you can't, purchasing will have no choice but to ask for a lower price" (Snelgrove, 2013).

Based on our research, I have developed a checklist of elements essential to best-practice value propositions (see Figure 2.5).

Quantify value

Quantifying value means translating competitive advantages into financial customer benefits. Competitive advantages typically deliver either quantitative or qualitative benefits, or both. Quantitative benefits are related exclusively to financial benefits, whereas qualitative benefits are related to process benefits—they allow customers to achieve the same goals in a better way. Quantitative benefits come in four categories: revenue/margin improvements, cost reductions, risk reductions, and capital expense

BEST PRACTICE VALUE PROPOSITIONS



Check	Item	Key Issue	Rate
	Is the target customer group clearly identified?	segment	
	Is the key business issue we resolve a real pain-point for this segment?	relevance	
	Is it clear that the value proposition is superior for this customer group?	better	
	Does the value proposition reflect our competitive advantages?	advantage	
	Is the value proposition relative to the customer's best available alternative?	competition	
	Are customer benefits quantified? is the quantification the result of Quantifying both financial as well as quantative benefits?	quantity	
	Is the value proposition based on the sound customer and market research?	research	
	Does it reflect changing customer priorities? is it relevant ... tomorrow?	update	
	Can you substantiate the value proposition with case studies or evidence of quantified performance improvements delivered?	substantiate	
	Can you articulate the value proposition in 1-2 minutes?	short	

FIGURE 2.5 Checklist for developing a best-practice value proposition

savings. Qualitative benefits include ease of doing business, relationship benefits, knowledge and core competencies, the value of the brand, and other process benefits.

Customer value is the sum of quantitative and qualitative benefits. Value quantification tools visualize the total customer value, that is, the sum of quantitative and qualitative benefits, the price of the company's own product/solution, and the costs of the best available competitive product. These value quantification tools thus allow ROI calculations: the ROI is the result of relating the price premium to the quantified difference in customer value.

Leading B2B companies routinely perform value quantifications. An example from SKF is illustrated in Figure 2.6 (Hinterhuber and Snelgrove, 2012).

Industrial bearings are, for the layperson, commodities: apparently interchangeable steel products used in automotive manufacturing. SKF is able to document to customers that, despite a price premium of 50 percent over the next best available product, customers end up paying less and being better off by purchasing from SKF.

Marketing, pricing, and sales managers in B2B should take notice: if SKF is able to quantify the value of industrial bearings, so should other companies with products that are frequently even more differentiated than those of SKF.

Implement and document

The final component in the process of value quantification is implementation and documentation of results. The promises outlined in value quantification tools—such as the one in Figure 2.6—account for nothing unless the value is actually realized in customer operations. In high-performing sales organizations, the following guiding principles underpin this process (see Figure 2.7).

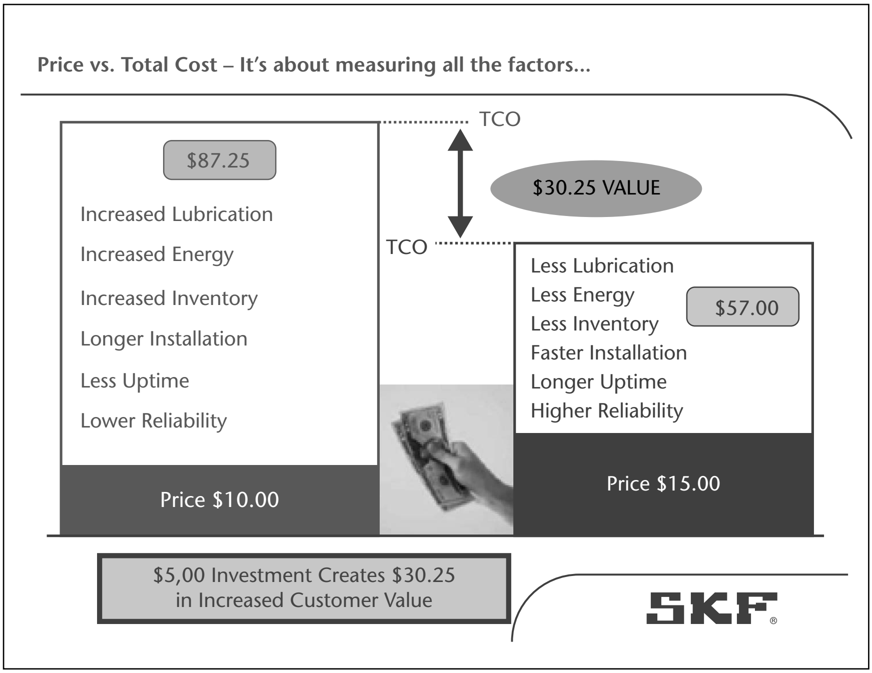


FIGURE 2.6 Value quantification at SKF

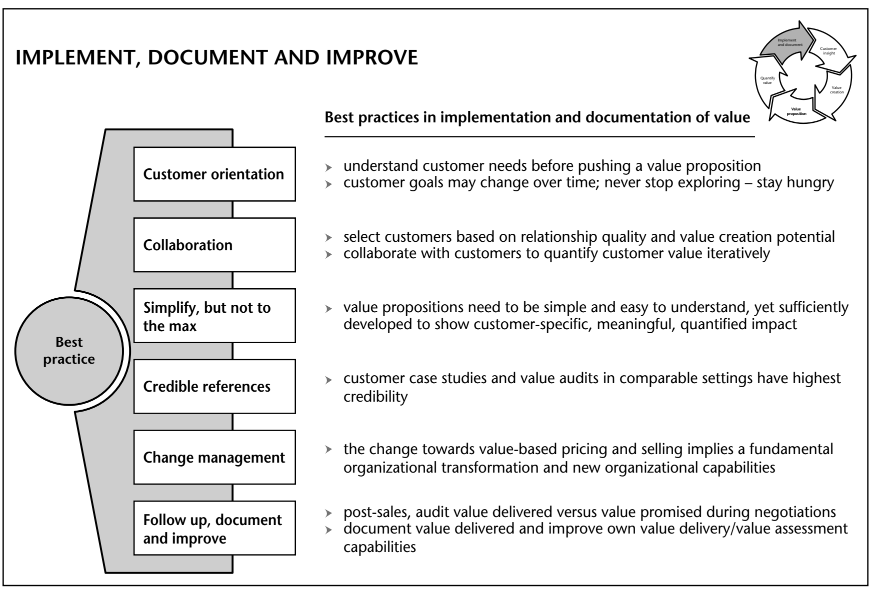


FIGURE 2.7 Implementing and documenting the quantified value proposition

Customer orientation

Customer orientation may appear to be a trite attribute of companies that successfully quantify the value proposition, but it is not. Our research suggests that low-performing sales organizations push their value propositions to customers regardless of whether these value propositions apply in the current context: customer needs may have changed, the next best available competitive alternative may have changed due to new competitors, the customer's objectives may have changed, or customer capabilities may have shifted. Nothing, our research suggests, destroys the credibility of sales managers quicker than presenting a value proposition to customers without first having gained an in-depth understanding of current and future customer needs. The adage "seek first to understand, then to be understood" is valid also in this specific context.

Collaboration

Quantified value propositions are the result of a tight-knit collaboration between vendors and suppliers: credible quantified value propositions cannot be developed in isolation and require that customers give suppliers access to the profit implications of the supplier's offerings for customer operations. This is tricky: in some instances the request for access to customer data highlighting the profit implications of supplier offerings on customer operations can trigger a countervailing request by the customer for access to supplier cost data (Rosenback, 2013). This request is reasonable. As a result, negotiated prices for differentiated offerings will settle not between the price of the customer's best available alternative and total customer value, as the literature on value-based pricing suggests (Nagle and Holden, 2002), but between (the likely lower) supplier costs and total customer value.

In this context, customer selection is important: rather than selecting customers based on size or reputation, high-performing sales organizations select customers based on the quality of the relationship and the potential for joint value creation. Furthermore, high-performing sales organizations take time and invest resources to fine-tune the value proposition through multiple iterations, whereas low-performing sales organizations tend to take a hit-or-miss approach. Typically, the latter leads to value propositions that are more generic and less relevant to any particular customer.

Simplify, but not to the maximum

The essence of a quantified value proposition consists of translating the company's competitive advantages into quantified, expected performance improvements. This requires an understanding of competitors and their price and performance level, an understanding of the firm's own competitive advantages, and, finally, an understanding of customers, their needs, and their business models (Hinterhuber, 2004). Modeling these relationships is complex: effective value propositions, like all models, are thus always a simplification of reality—but not to the point where simplification leads to meaningless generalization.

Credible references

References enhance the credibility of quantified value propositions. These references can take many forms: summaries of pilot projects, customer case studies, value audits, or documented performance improvements countersigned by customers.

Change management

Institutionalizing value quantification as organizational capability requires organizational change management (Liozu *et al.*, 2012). New approaches to selling, marketing, and pricing frequently require new capabilities, a new organizational structure, different goal and incentive systems, new processes and tools, and new organizational priorities. From an organizational perspective, the implementation of value quantification across the organization must be treated like an ongoing change management process as opposed to a project with a finite life (Hinterhuber and Liozu, 2014).

Follow up, document, and improve

As a final element in value quantification, high-performing sales organizations rigorously follow up on actual versus expected quantified value delivered in 6- to 12-month intervals. This enables both customers and suppliers to learn, to analyse causes of performance deviations, and to implement measures to close performance gaps. This documentation also enables suppliers to build up a library of documented and quantified performance improvements, by, for example, client function, industry, size, and geographic area. SKF, for example, has built up a library containing more than 51,000 case studies of documented and quantified value delivered by SKF, countersigned by customers. This library, SKF's documented solutions program (DSP), is a very powerful selling tool for sales managers when participating in competitive bids with new customers: Extant data can be used to estimate likely quantified performance improvements based on a long history of realized performance improvements in similar situations that customers have actually realized. This documentation is thus an important enabler of organizational learning within suppliers: suppliers learn about typical roadblocks to the realization of expected quantified performance improvements; suppliers also learn about all those areas of their own offering where the realized value is higher than the value they themselves expected to realize. These positive and negative deviations from initial performance expectations are important foundations for gaining an even better, more fine-tuned and granular understanding of the effect of a firm's own competitive advantages on customer operations. As a result, these deviations will, over time, likely diminish.

Examples of effective quantified value propositions

In the course of our research, we encountered a dozen or so companies that have highly effective quantified value propositions. These well-crafted value propositions support sales and marketing executives during the bidding phase. The ultimate outcomes of effective quantified value propositions are higher prices and higher win rates. As a further benefit, respondents report that the conversation with B2B buying centers shifts: price is less a central concern and the focus shifts towards the quantified performance improvement. Realization of this performance improvement requires that customers and suppliers work together closely. Effective quantified value propositions thus fundamentally change the nature of the customer–supplier relationship, requiring a tight-knit collaborative attitude whereby barriers between the organizations of customers and suppliers start to fall. This ultimately benefits customer satisfaction and customer loyalty.

Confidentiality agreements signed with the companies that are subjects of this research make it impossible to share details on these value propositions. There are companies, however, that have published, at least in part, their quantified value propositions. In addition to the example of SKF, highlighted above, we present a quantified value proposition of SAP (see Figure 2.8) (Raihan, 2010).

SAP sells enterprise software: in this specific project case the company's price is 20 percent above the price of a comparable competitor. SAP argues that the true cost of the competitive solution is higher than its own price, mainly because risks have not been accounted for. SAP identifies several categories of risk: solution risk (lower business functionality, regulatory risk), supplier risk (only local presence, long-term viability), technology risk (lower scalability), operational risk (lower flexibility), and, finally, implementation risk (lower experience). These risks

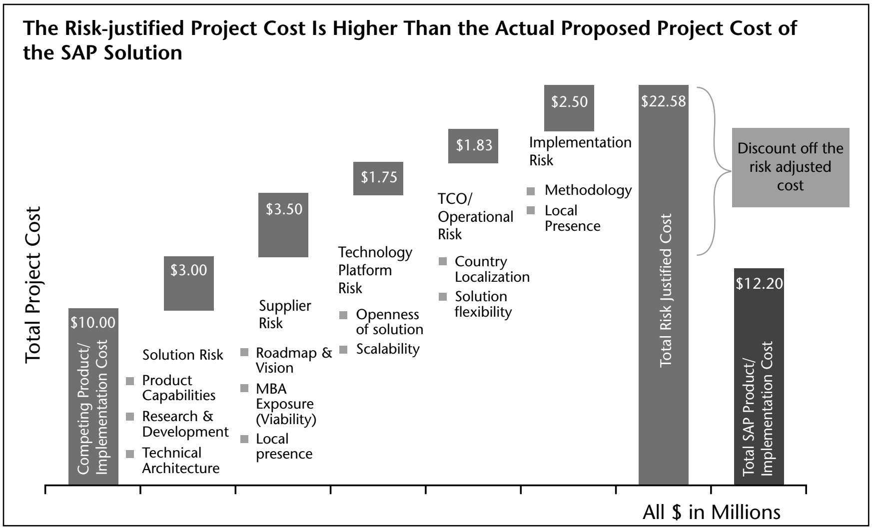


FIGURE 2.8 Quantifying the value proposition—the example of SAP

can be quantified and should be, at least according to SAP, added to the price of the lower-cost solution. The risk-adjusted price of the apparently low-cost offer exceeds the price of SAP's solution by a substantial amount. According to SAP's experience, this helps the company win deals even though the list price of its solution is substantially higher—in this specific case by 20 percent—than the price of the customer's next best alternative.

Further considerations

Value quantification capabilities may be the most important capabilities of high-performing sales companies today. Building these capabilities requires a deep personal and organizational change. An interviewee at a global B2B IT service company observes: "What we started to realize was: It is not what your products or services do for your customers. It is what your customers are able to do as a result of using your products and services."

The preliminary results of this research indicate that companies with well-developed value quantification capabilities are able to realize higher prices and higher win rates. Relationships with customers benefit as well: collaboration increases. As companies implement the process outlined here—(1) customer insight, (2) value creation, (3) value proposition, (4) value quantification, and (5) implementation and documentation—customer satisfaction and loyalty typically increase. Thus, developing these capabilities may lead companies to achieve a sustainable competitive advantage.

We lack, however, quantitative empirical studies documenting the link between a company's value quantification capability and performance. This would make for a fascinating study.

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